April 2005

Why Performance Improvements Fall Short

Author: Aditya Nath, CEO & Managing Partner

Most corporations have undertaken substantial initiatives to improve operating performance, including reducing costs and/or improving product quality. Very few of these companies have been able to translate these efforts into operating results, often frustrating management who fail to see significant bottom-line impact despite their best efforts. What prevents this from happening?

- **Competitive Marketplace**. In a competitive marketplace, all the players are working on substantially similar strategies (e.g., global sourcing). While these strategies help the organizations stay competitive in the short term, they often produce no additional leverage to improve business performance over the long run.

- **Interaction**. Most organizations are a complex web of functions and activities. They fail to understand that changing policies in one functional area has an impact on other functional areas. For example, to perform cost reduction in isolation of supply chain or complexity reduction initiatives, assumes each is independent of the other. In reality, there is a significant amount of interaction between product complexity, supply chain, material cost, quality and other functional areas.

- **Synergy.** Organizations tend to take a short-term and localized point-of-view when challenged with business issues, and don't take enough time to understand the underlying levers that can impact multiple performance improvement factors and provide a truly synergistic impact.

Our experience has shown that companies that take an integrated and holistic approach in three specific areas can achieve sustainable and measurable superior business results: cost, quality, and yield management.

Cost Management
Companies need focus on cost of direct materials, supply chain, transportation & logistics, as well as cost of product support, product maintenance, and engineering. We have seen that as much as 5-8% of a company's cost can be buried in unwarranted business complexity. By reducing complexity of operations, processes, products, etc., companies can realize savings of 2-3% of total costs in 18-24 months.

Quality Management
Companies are faced with shortening product development lifecycles and are required to engineer technologically advanced and feature-rich products to sustain market share and price premiums. Faced with substantial new content in their products, companies still need to maintain high product quality, reliability and performance. Dramatic improvements in quality levels enable them to remain steadfast in the premium pricing of their products in the marketplace. Through an integrated approach to product development, program management, quality and warranty, companies can realize a 15-20% reduction in cost and cycle time, thereby adding 2-3% to the bottom-line.

Yield Management

Yield management focuses on maximizing synergies that drive increased customer value and price realization while increasing productivity and lowering the cost of operations. Superior yield management can be achieved by employing techniques like option-based packaging, market segmentation studies, pricing analysis and improving overall workforce effectiveness through appropriate structures, processes and communications. For example option-based packaging helps to simplify the buying process by creating an environment where the customer is motivated to buy certain product configurations that maximize profitability while minimizing operational and supply chain inefficiencies. The benefits include improved product margins, share of market, and price realization resulting in 1-2% improvement in the bottom-line over a 12-24 month period.

Successful corporate improvement initiatives depend on the right methodology and focused discipline of execution. Identifying key levers and examining how their independent relationships affect the enterprise is the foundation of an effective approach.